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ANNUAL AUDITED REPORT
FORM X-17A-5
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: BlackRock Distributors, Inc.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM I.D. NO.

301 BELLEVUE PARKWAY

(No. and Street)

WILMINGTON

DE

19809

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Charlene Wilson

412-762-6348

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers, LLP

(Name - if individual, state last, first, middle name)

Two Commerce Square, 2001 Market Street

Philadelphia

PA

19103-7042

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant
☐ Public Accountant
☐ Accountant not resident in United States or any of its possessions.

PROCESSED

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FINANCIAL

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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4/3/20

Commonwealth of Pennsylvania
County of Allegheny

OATH OR AFFIRMATION

I, Charlene Wilson, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of BlackRock Distributors, Inc., as of and for the year ended December 31, 20 07, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

None

COMMONWEALTH OF PENNSYLVANIA
Notarial Seal
Joy A. Damico, Notary Public
Monroeville Boro, Allegheny County
My Commission Expires Oct. 7, 2010
Member, Pennsylvania Association of Notaries

Charlene Wilson
Signature
Financial and Operations Principal
Title

Joy A. Damico
Notary Public

This report ** contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition.
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital.
- ☒ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☒ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

BlackRock Distributors, Inc.
(SEC I.D. No. 8-48775)

**Independent Auditors' Report and
Supplemental Report on Internal Control**

**Financial Statements and Supplemental Schedules
for the Year Ended December 31, 2007**

**Filed Pursuant to Rule 17a-5(e)(3)
as a PUBLIC DOCUMENT**

BlackRock Distributors, Inc.
(A Wholly-owned Subsidiary of PFPC Distributors, Inc.)

Financial Statements and
Supplementary Information

For the Year ended December 31, 2007

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Report of Independent Auditors

To BlackRock Distributors, Inc.

In our opinion, the accompanying statement of financial condition and the related statement of operations, statement of shareholder's equity and statement of cash flows present fairly, in all material respects, the financial position of BlackRock Distributors, Inc. (the "Company") at December 31, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information contained in the Supplementary Information section is presented for purposes of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

February 25, 2008

BlackRock Distributors, Inc.

(A Wholly-owned Subsidiary of PFPC Distributors, Inc.)

Statement of Financial Condition

December 31, 2007

Assets

Cash and cash equivalents	\$ 17,402,911
Accounts receivable, net of allowance for doubtful accounts of \$25,974	31,148,503
Prepaid expenses	19,332
Interest receivable	146,491
Deferred tax asset	15,436

Total assets \$ 48,732,673

Liabilities and stockholder's equity

Liabilities:

Accounts payable	\$ 40,582,096
Intercompany payable	44,253
Accrued expenses	9,997
Income taxes payable	61,301

Total liabilities 40,697,647

Stockholder's equity:

Common stock, \$0.01 par value, 1,000 shares authorized; 100 shares issued and outstanding	1
Additional paid-in capital	5,984,273
Retained earnings	2,050,752

Total stockholder's equity 8,035,026

Total liabilities and stockholder's equity \$ 48,732,673

The accompanying notes are an integral part of these financial statements.

BlackRock Distributors, Inc.
(A Wholly-owned Subsidiary of PFPC Distributors, Inc.)

Statement of Income

For the Year Ended December 31, 2007

Revenues:

Service fees	\$ 1,226,467
Investment income	1,298,265
Other income	<u>35,000</u>
Total revenue	<u>2,559,732</u>

Expenses:

Allocated support services	438,380
Professional and other services	72,922
General office expenses	<u>40,328</u>
Total expenses	<u>551,630</u>
Income before income taxes	2,008,102
Provision for income taxes	<u>830,853</u>
Net income	<u><u>\$ 1,177,249</u></u>

The accompanying notes are an integral part of these financial statements.

BlackRock Distributors, Inc.
(A Wholly-owned Subsidiary of PFPC Distributors, Inc.)

Statement of Changes in Stockholder's Equity

For the Year Ended December 31, 2007

	<u>Common Stock</u>		<u>Additional</u>	<u>Retained</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Paid-in</u>	<u>Earnings</u>	<u>Stockholder's</u>
			<u>Capital</u>		<u>Equity</u>
Balances at January 1, 2007	100	\$ 1	\$ 1,984,273	\$ 873,503	\$ 2,857,777
Cash Contribution by Parent	-	-	4,000,000	-	4,000,000
Net income	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,177,249</u>	<u>1,177,249</u>
Balances at December 31, 2007	<u>100</u>	<u>\$ 1</u>	<u>\$ 5,984,273</u>	<u>\$ 2,050,752</u>	<u>\$ 8,035,026</u>

The accompanying notes are an integral part of these financial statements.

BlackRock Distributors, Inc.

(A Wholly-owned subsidiary of PFPC Distributors, Inc.)

Statement of Cash Flows

For the Year Ended December 31, 2007

Cash flows from operating activities:

Net income		\$ 1,177,249
Adjustments to reconcile net income to net cash used in operating activities:		
Deferred tax expense	\$ (2,633)	
Changes in assets and liabilities:		
Decrease in accounts receivable	5,829,924	
Decrease in prepaid expenses	6,658	
Increase in interest receivable	(55,461)	
Decrease in accounts payable	(14,854,440)	
Increase in intercompany payable	946	
Increase in accrued expenses	6,217	
Decrease in income taxes payable	(88,891)	
Total adjustments		<u>(9,157,680)</u>
Net cash used in operating activities		<u>(7,980,431)</u>

Cash flows from financing activities:

Cash contribution by Parent	<u>4,000,000</u>
Net cash provided by financing activities	<u>4,000,000</u>
Net decrease in cash	(3,980,431)
Cash and cash equivalents at beginning of year	<u>21,383,342</u>
Cash and cash equivalents at end of year	<u>\$ 17,402,911</u>
Supplemental cash flows disclosure:	
Income tax payments	<u>\$ 890,500</u>
Income tax refunds	<u>\$ 16,544</u>

The accompanying notes are an integral part of these financial statements.

BlackRock Distributors, Inc.
(A Wholly-owned Subsidiary of PFPC Distributors, Inc.)

Notes to Financial Statements

December 31, 2007

1. Organization

BlackRock Distributors, Inc. (the "Company") is a wholly-owned subsidiary of PFPC Distributors, Inc. ("PFPCDI") and an indirect wholly-owned subsidiary of PFPC Inc. (the "Parent"), PFPC Trust Company ("Trust Co.") and The PNC Financial Services Group, Inc. ("PNC" or the "Corp."), a publicly traded company. The Company is registered with the Securities and Exchange Commission ("SEC") as a broker-dealer and is a member of the Financial Industry Regulatory Authority ("FINRA").

The Company serves solely as distributor and principal underwriter to BlackRock Funds (the "Funds") and, as a result, substantially all of the Company's revenues from these services are earned from the Funds (See Note 6).

2. Significant Accounting Policies

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and the accompanying notes. Actual results may differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents consist of cash and short-term, highly liquid investments with original maturities of three months or less. Cash and cash equivalents are generally held at major financial institutions and in open-end money market mutual funds registered under the Investment Company Act of 1940 ("40 Act").

Accounts Receivable - Accounts receivable includes amounts due from the Funds for the performance of distribution and support services.

Income Taxes - The liability method is used in accounting for income taxes whereby deferred income tax assets and liabilities are determined based on differences between the financial reporting and income tax basis of assets and liabilities and are measured using the enacted tax rates and laws that are expected to be in effect when the differences reverse (See Note 4).

Revenue Recognition - Revenue from service fees is recognized in the period the service is rendered. The Company earns distribution fee revenue from various funds based on a percentage of outstanding net assets of certain classes of shares of such funds. Monies from distribution fees are generally remitted to external brokers who distribute the shares of these funds to investors. In accordance with Emerging Issues Task Force ("EITF") Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent", receipts and payments of distribution fees are recorded on a net basis in the consolidated statement of income as revenue and contra revenue. For the year ended December 31, 2007, amounts earned from distribution fee revenue was approximately \$352 million.

BlackRock Distributors, Inc.
(A Wholly-owned Subsidiary of PFPC Distributors, Inc.)

Notes to Financial Statements (continued)

December 31, 2007

2. Significant Accounting Policies (continued)

Investment Income - Investment income is interest income earned on cash and cash equivalents and is recognized when earned.

Out-of-Pocket Expenses - The Company records reimbursements from clients for out-of-pocket expenses in accordance with EITF Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred." Companies that provide services as part of their central ongoing operations generally incur incidental expenses that, in practice, are commonly referred to as "out-of-pocket" expenses. These expenses often include, but are not limited to, expenses related to travel, telecommunications, postage, delivery and bank depository charges. In many cases, the Company and the client agree that the client will reimburse the Company for the actual amount of such expenses incurred. Reimbursements received for out-of-pocket expenses incurred are characterized as "Service fees," while the expenses are included within "Professional and other services" in the statement of income.

Fair Value of Financial Instruments - Statement of Financial Accounting Standards ("SFAS") No. 107, "Disclosures About Fair Value of Financial Instruments," requires the disclosure of the estimated fair values of financial instruments. Substantially all of the Company's assets and liabilities are considered financial instruments, as defined by SFAS 107. Fair value is defined as the price at which a financial instrument could be liquidated in an orderly manner over a reasonable time period under present market conditions.

SFAS 107 requires that the fair value of financial instruments be estimated using various valuation methodologies. Quoted market prices, when available, are used as the measure of fair value. The estimated fair value of financial instruments that have a short-term maturity may approximate the carrying amount of such financial instruments.

The Company's financial instruments are short-term in nature. Consequently, carrying amounts of these assets and liabilities approximated estimated fair value. The Company considers the amounts recorded for the financial instruments on the statement of financial condition to be reasonable estimates of fair value.

BlackRock Distributors, Inc.
(A Wholly-owned Subsidiary of PFPC Distributors, Inc.)

Notes to Financial Statements (continued)

December 31, 2007

2. Significant Accounting Policies (continued)

Recently Issued Accounting Pronouncements - In May 2007, the Financial Accounting Standards Board ("FASB") issued FSP FIN 48-1, "Definition of Settlement in FASB Interpretation ("FIN") No. 48." This FSP amended FIN 48, "Accounting for Uncertainty in Income Taxes," to provide guidance as to the determination of whether a tax position is deemed effectively settled for purposes of recognizing previously unrecognized tax benefits under FIN 48. This guidance was adopted effective January 1, 2007 in connection with the Company's adoption of FIN 48 (See Note 4).

SFAS 157, "Fair Value Measurements," defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. This statement applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value, it does not expand the use of fair value to new accounting transactions and does not apply to pronouncements that address share-based payment transactions. As required, we will adopt SFAS 157 prospectively beginning January 1, 2008. The adoption of this standard did not have a material effect on retained earnings at January 1, 2008 and is not expected to have a material effect on our results of operations or financial position.

In February 2007, the FASB issued SFAS 159, "The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115." This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option may be applied on an instrument by instrument basis with a few exceptions. The election is irrevocable and must be applied to entire instruments and not to portions of instruments. SFAS 159 is effective beginning January 1, 2008. Elections made upon adoption of the standard to fair value financial instruments are not expected to have a material effect on retained earnings at January 1, 2008 and are not expected to have a material effect on our results of operations or financial position.

3. Net Capital Requirements

The Company is subject to the SEC's Uniform Net Capital Rule (the "Rule"), which requires the maintenance of minimum net capital. The Company has elected to use the basic method permitted by the Rule, which requires that the Company maintain minimum net capital equal to the greater of \$25,000 or 6 2/3% of aggregate indebtedness, as defined. The Rule also requires that aggregate indebtedness not exceed 15 times net capital. The SEC requirements provide that equity capital may not be withdrawn or cash dividends paid if certain minimum net capital requirements are not met. At December 31, 2007, the Company had net capital of \$7,429,595, which was \$4,716,419 in excess of the required net capital of \$2,713,176. The Company's

BlackRock Distributors, Inc.
(A Wholly-owned Subsidiary of PFPC Distributors, Inc.)

Notes to Financial Statements (continued)

December 31, 2007

3. Net Capital Requirements (continued)

resulting ratio of aggregate indebtedness to net capital was 5.48 to 1. The Company has complied with the exemptive provisions of SEC Rule 15c3-3(k)(1), limiting business to the distribution of mutual funds and/or variable life insurance or annuities. The Company does not hold customer funds or safekeep customer securities.

4. Income Taxes

The operating results of the Company are included in the consolidated U.S. Federal tax return of the Corp. and its subsidiaries. For state income tax purposes, the Company files on a separate company basis. Federal income taxes are calculated as if the Company filed a separate federal income tax return.

The income tax expense included in the statement of income as determined in accordance with SFAS No. 109, "Accounting for Income Taxes," is as follows:

At December 31, 2007

Current income taxes:

Federal	\$633,933
State	199,553
Total current income taxes	<u>833,486</u>

Deferred income taxes:

Federal	(30)
State	(2,603)
Total deferred income taxes	<u>(2,633)</u>

Total income tax provision	<u>\$830,853</u>
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The provision for federal income taxes is different from the amount which would be provided by applying the federal statutory income tax rate of 35 percent to income before income taxes, primarily as a result of state income taxes.

At December 31, 2007, the company had a deferred tax asset of \$15,436, which resulted from state income taxes, non-income taxes and doubtful accounts. The asset was included on the statement of financial condition. A valuation allowance against the Company's deferred tax asset is not considered necessary as of December 31, 2007.

BlackRock Distributors, Inc.
(A Wholly-owned Subsidiary of PFPC Distributors, Inc.)

Notes to Financial Statements (continued)

December 31, 2007

4. Income Taxes (continued)

We adopted FIN 48 effective January 1, 2007. Our adoption of FIN 48 did not result in a cumulative adjustment to equity. Upon adoption at January 1, 2007, we had no unrecognized tax benefits.

The company is included in the consolidated federal income tax return for The PNC Financial Services Group, Inc. These consolidated returns through 2003 have been audited by the Internal Revenue Service and all disputed matters have been resolved through the IRS appeals division. The Internal Revenue Service is currently examining the 2004 through 2006 consolidated federal income tax returns.

The company files principally in the Commonwealth of Pennsylvania, and years subsequent to 2006 remain subject to examination in that jurisdiction. However, we do not expect the results of those examinations to have a material impact on state income tax expense during the next twelve months.

5. Related Party Transactions

Related party revenues of \$1,226,467 were generated by providing distribution and administrative support services to affiliated open-end investment companies. At December 31, 2007, \$31,148,503 of revenue was accrued for services performed for affiliated open-end investment companies. This balance was included in "Accounts receivable" on the statement of financial condition.

The financial statements are prepared from the separate records maintained by the Company. The Company shares office space and equipment with the Parent, which is under common control of the Corp. Accordingly, the Company has been charged for such shared costs. The Parent, the Corp. and certain other affiliates provide administrative, legal, human resource and other general support services, the cost of which is also allocated to the Company. For the year ended December 31, 2007, expenses of \$438,380 were allocated to the Company, which are included in "Allocated support services" and credits of \$66,456 were allocated to the Company, which are included in "Professional and other services" in the statement of income. At December 31, 2007, amounts payable to the Parent totaled \$44,253, which are included in "Intercompany payable" on the statement of financial condition.

The deferred tax asset of \$15,436, recorded on the statement of financial condition, will result in an intercompany receivable. The income taxes payable of \$61,301, as recorded on the statement of financial condition, is an intercompany payable. For the year ended December 31, 2007, income tax payments of \$890,500 were paid to the Corp. and Trust Co. and income tax refunds of \$16,544 were received from the Corp. and Trust Co.

BlackRock Distributors, Inc.
(A Wholly-owned Subsidiary of PFPC Distributors, Inc.)

Notes to Financial Statements (continued)

December 31, 2007

5. Related Party Transactions (continued)

The Company is party to a Master Sale and Servicing agreement with an affiliate, BlackRock Financing, LLC ("BlackRock Financing"). Under this agreement, BlackRock Financing advances commissions on B and C share funds to third parties in exchange for rights to future cash flows collected by the funds. Funds advanced by BlackRock Financing are recorded as cash and a liability on the books of the Company until they are paid out to these third parties. The related commissions received on B and C shares due BlackRock Financing are received by the Company and are also recorded as cash and a liability. Amounts are drawn down by BlackRock Financing on a periodic basis. At December 31, 2007, amounts advanced by BlackRock Financing were \$300,000 and are included as "Cash and cash equivalents" and "Accounts payable" on the statement of financial condition. At December 31, 2007, commissions due BlackRock Financing were approximately \$5.7 million and are included as "Cash and cash equivalents" and "Accounts payable" on the statement of financial condition.

The members of the Board of Directors of the Company are employees of the Parent or Trust Co. For the year ended December 31, 2007, the Board members did not receive any remuneration for their services.

6. Concentration of Credit Risk

Financial instruments, which potentially subject the Company to credit risk, consist principally of cash and cash equivalents held in deposit accounts with the Parent or money market mutual funds held with an affiliate.

7. Capital Contribution

On February 28, 2007, the Company received a capital contribution of \$4 million from PFPCDI.

Supplementary Information

BlackRock Distributors, Inc.
(A Wholly-owned Subsidiary of PFPC Distributors, Inc.)

Computation of Net Capital under SEC Rule 15c3-1

December 31, 2007

Net Capital:

Stockholder's equity	\$ 8,035,026
Deduction for nonallowable assets:	
Accounts receivable	342,295
Prepaid expenses	19,332
Deferred tax asset	15,436
	<hr/>
Net capital before haircuts on securities positions	7,657,963
Haircuts on securities:	
Investment in money market mutual fund (2% of \$11,418,396)	228,368
	<hr/>
Net capital	<u><u>\$ 7,429,595</u></u>

Aggregate Indebtedness:

Items included on statement of financial condition:

Accounts payable	\$ 40,582,096
Intercompany payable	44,253
Accrued expenses	9,997
Income taxes payable	61,301
	<hr/>
Total aggregate indebtedness	<u><u>\$ 40,697,647</u></u>

Computation of Basic Net Capital Requirement:

Minimum net capital required (greater of 6 2/3% of aggregate indebtedness or \$25,000)	<u><u>\$ 2,713,176</u></u>
Net capital in excess of required minimum	<u><u>\$ 4,716,419</u></u>
Excess net capital @ 1000% (net capital less 10% of aggregate indebtedness)	<u><u>\$ 3,359,830</u></u>
Ratio of aggregate indebtedness to net capital	<u><u>5.48 to 1</u></u>

Statement Pursuant to SEC Rule 17a-5(d)(4):

A reconciliation of the above computation to the computation of net capital under SEC Rule 15c3-1, as of December 31, 2007, filed by BlackRock Distributors, Inc., in its FOCUS Part IIA Report is not required as the computations are not materially different.

BlackRock Distributors, Inc.
(A Wholly-owned Subsidiary of PFPC Distributors, Inc.)

Computation for Determination of Reserve Requirement and Information
Relating to the Possession or Control Requirements Under SEC Rule 15c3-3

December 31, 2007

The Company has elected the exemption under Rule 15c3-3(k)(1) of the Securities and Exchange Commission, limiting business to the distribution of mutual funds and /or variable life insurance or annuities. At December 31, 2007, the Company held no customer funds and had no required deposit.

**Report of Independent Auditors on Internal Control
Required By SEC Rule 17a-5**

To BlackRock Distributors, Inc.

In planning and performing our audit of the financial statements of BlackRock Distributors, Inc. (the "Company") as of and for the year ended December 31, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (the "SEC"), we have made a study of the practices and procedures followed by the Company, including consideration of control activities for safeguarding securities. This study included tests of compliance with such practices and procedures, that we considered relevant to the objectives stated in Rule 17a-5(g), in making the following:

1. The periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11); and
2. Determining compliance with the exemptive provisions of Rule 15c3-3.

Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making the quarterly securities examinations, counts, verifications, and comparisons, and the recordation of differences required by Rule 17a-13; and
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph, and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable, but not absolute, assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first, second, and third paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2007 to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, FINRA, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

PricewaterhouseCoopers LLP

February 25, 2008

END